



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of the Governor
and Lieutenant Governor*

*For the Two Fiscal Years Ended
June 30, 2016*

DECEMBER 2016

LEGISLATIVE AUDIT
DIVISION

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

RANDY BRODEHL, CHAIR
Randybrodehl57@gmail.com

TOM BURNETT
Burnett.tom@gmail.com

VIRGINIA COURT
virginacourt@yahoo.com

DENISE HAYMAN
Rep.Denise.Hayman@mt.gov

KENNETH HOLMLUND
rep.ken.holmlund@mt.gov

MITCH TROPILA
tropila@mt.net

SENATORS

DEE BROWN
senatordee@yahoo.com

TAYLOR BROWN
taylor@northernbroadcasting.com

MARY McNALLY, VICE CHAIR
McNally4MTLeg@gmail.com

J.P. POMNICHOWSKI
pomnicho@montanadsl.net

BRUCE TUTVEDT
tutvedt@montanasky.us

GENE VUCKOVICH
Sen.Gene.Vuckovich@mt.gov

MEMBERS SERVE UNTIL A
MEMBER'S LEGISLATIVE TERM
OF OFFICE ENDS OR UNTIL A
SUCCESSOR IS APPOINTED,
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE
(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446
ladhotline@mt.gov

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

AUDIT STAFF

MARY CURRIN
JENNIFER ERDAHL
NOLAN PREESHL

JESSICA CURTIS
JOHN FINE
KAREN E. SIMPSON

Reports can be found in electronic format at:

<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

December 2016

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2016. Included in this report is a disclosure issue related to revenue designation.

The office's written response to the audit recommendations is included in the audit report at page C-1. We thank the Governor and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Elected, Appointed, and Administrative Officials.....	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Introduction.....	1
Background.....	1
Prior Audit Recommendations.....	3
Governor's Operation Account	3
CHAPTER II – DISCLOSURE ISSUE.....	5
Revenue Dedication	5
INDEPENDENT AUDITOR'S REPORT AND OFFICE FINANCIAL SCHEDULES	
Independent Auditor's Report	A-1
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2016	A-5
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2015	A-6
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2016.....	A-7
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2015.....	A-8
Schedule of Total Expenditures for the Fiscal Year Ended June 30, 2016.....	A-9
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2015.....	A-10
Notes to the Financial Schedules	A-11
REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with <i>Government Auditing Standards</i>	B-1
OFFICE RESPONSE	
Office of the Governor and Lieutenant Governor	C-1

ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

Office of the Governor and Lieutenant Governor	Steve Bullock	Governor
	Mike Cooney	Lieutenant Governor
	Tracy Stone-Manning	Chief of Staff
	Dan Villa	Budget Director

For additional information concerning the Office of the Governor and Lieutenant Governor, contact:

Tim Crowe, Communications Director
Governor's Office
P.O. Box 200801
Helena, MT 59620-0801
(406) 444-3111
e-mail: TimCrowe@mt.gov

MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT Office of the Governor and Lieutenant Governor

For the Two Fiscal Years Ended June 30, 2016

DECEMBER 2016

#16-23

REPORT SUMMARY

The 2013 Montana Legislature authorized a General Fund transfer of \$7.5 million to the Office of the Governor and Lieutenant Governor to fund operations costs of nine specific state agencies. During fiscal year 2015, approximately \$4.75 million was allocated to and disbursed by two agencies not referenced in the law. We also disclose an instance where an agency received operating plan authority to transfer General Fund money to a state special revenue account at another agency.

Context

The Legislature appropriated funds to the Office of the Governor and Lieutenant Governor (office) in nine programs for fiscal years 2015 and 2016. In April 2016, the office reorganized its activity into seven programs. The office oversees the activities of the executive branch of Montana state government, consistent with constitutional and statutory mandates.

The office recorded \$4,953,601 and \$5,137,134 in personal services expenditures, 74.74 percent and 78.40 percent of total expenditures for fiscal years 2015 and 2016, respectively.

In obtaining evidence for our opinion on the financial schedules of the office, we assessed risk of material misstatements, documented internal controls, and performed tests related to personal services, operating expenses, direct entries to fund equity, and selected revenue transactions. We also tested compliance with several state laws.

Results

The prior audit report contained four recommendations. The office concurred with and implemented three recommendations. The office did not concur with or implement the recommendation to disburse the remaining Governor's Operations Account funds only to agencies authorized in state law. In fiscal year 2015, the office allocated \$4,749,975 of disbursements from this fund by two agencies that were not authorized in the statute to receive them.

We disclosed an instance where the Office of Budget and Program Planning approved a transfer amount in an operating plan amendment for the General Fund at an agency to transfer money to a state special revenue account at another agency.

For a complete copy of the report (16-23) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE

Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2016. The objectives of the audit were to:

1. Determine whether the office's financial schedules present fairly its results of operations and changes in fund equity for each of the fiscal years ended June 30, 2016, and 2015.
2. Determine whether the office complied with selected laws and regulations.
3. Obtain an understanding of the office's control structures to the extent necessary to support the audit of its financial schedules and, where necessary, make recommendations for improvement in the office's management and internal controls.
4. Determine the status of prior audit recommendations.

Background

The office was authorized 58.07 full-time equivalent (FTE) positions in fiscal year 2015-16. The following paragraphs discuss the various divisions administered by the office, as appears on the Schedule of Total Expenditures for the fiscal year ended June 30, 2016, on page A-9. The office reorganized its programs.

Executive Office (23.00 FTE) provides administrative, legal, and press support for the office. The executive office oversees and coordinates the activities of executive branch agencies. The Governor discharges the executive power vested by the Montana Constitution and oversees implementation of the laws of the state. The Governor appoints and supervises the directors of each executive department. In accordance with constitutional and statutory requirements, the Governor submits to the legislature a budget detailing expenditures and revenues. The Governor appoints members to boards and commissions as required by law and establishes advisory councils deemed necessary.

The executive office also administers the Office of Economic Development. This office: advises the Governor on policy issues related to economic development; assists the Governor in accomplishing economic development initiatives; leads the state's business recruitment, retention, and expansion efforts; coordinates the development and distribution of a statewide strategic economic development marketing plan; and serves as the state's primary economic development liaison.

Activity of the Citizen's Advocate Office and its 2 FTE are included in the Executive Office in fiscal year 2016.

Lieutenant Governor (3.00 FTE) carries out the duties prescribed in Montana's Constitution and statutes, and those delegated by the Governor.

Office of Budget and Program Planning (22.00 FTE) assists the Governor: in planning, preparing and administering the state budget; prepares and monitors revenue estimates; acts as approving authority for operational plan changes, program transfers and budget amendments; and is the lead executive branch agency for compliance with the federal Single Audit Act. In fiscal year 2016, the 4 FTE of Centralized Services which provides business services to all programs within the office, including budget preparation and monitoring, accounting, human resources, data processing, and other business services, is included in the Office of Budget and Program Planning on page A-9.

Mental Disabilities Board of Visitors (5.00 FTE) protects the rights of the mentally ill and the developmentally disabled. The Board conducts reviews of Montana's public mental health programs and the Montana Developmental Center, and assists individuals receiving services from these programs. The Mental Health Ombudsman is also accounted for in this program. The Ombudsman is appointed by the Governor to represent the interests of Montanans with regard to the need for public mental health services, to advocate for individuals who are being served, and to assist those who are seeking services for themselves or others including individuals who are in transition from public to private services.

Executive Residence Operations (1.57 FTE) maintains the Governor's official residence by properly managing, maintaining, equipping, and stocking the house for the Governor, his family, and the official public functions hosted there.

Air Transportation (1.50 FTE) provides transportation for the Governor and the Governor's staff.

Director of Indian Affairs (2.00 FTE) serves as the Governor's liaison with the state Indian tribal nations, provides information and policy support on issues confronting Indians of Montana, and advises and makes recommendations to the legislative and executive branches on these issues.

During fiscal year 2016, the office reorganized its programs. The Centralized Services Division was combined with the Office of Budget and Program Planning and the Citizens' Advocate Office was combined with the Executive Office Program.

Prior Audit Recommendations

The audit report for the two fiscal years ended June 30, 2014, contained four recommendations to the office. The office concurred with three recommendations concerning procard expenditures, procard employee agreement forms, and revenue estimates; and did not concur with one. Based on the work performed during this audit, we determined the office implemented three recommendations and did not implement the recommendation related to §2-15-247(2), MCA, with which it did not concur. We discuss the noncompliance with this law in the paragraph below.

Governor's Operation Account

The office distributed \$4,499,975 to the Office of the Public Defender and transferred \$250,000 to the Department of Livestock from the Governor's Operation Account established in §2-15-247, MCA. Neither of these agencies is listed in the statute as authorized to receive funding from the Governor's Operation Account established under this law. In the prior audit, the office asserted that the responsibilities the Governor has to the entire state as head of the Executive Branch also pertain to the Governor's Operation Account and allow the Governor to allocate priorities between agencies as to the use of this money. We hold that the specific language in §2-15-247, MCA, had precedence over general provisions in determining the valid use of the money. Because §2-15-247, MCA, terminated on June 30, 2015, we reported these instances of noncompliance, but make no recommendation.

Chapter II – Disclosure Issue

Revenue Dedication

The Office of Budget and Program Planning (OBPP) approved an operating plan amendment in the General Fund to decrease the operating expense budget and increase the transfers budget by \$67,342 at the Department of Environmental Quality (DEQ) in fiscal year 2015. DEQ used the transfer budget to transfer cash from the General Fund to the Department of Natural Resources and Conservation (DNRC) to cover a resource shortfall in the Natural Resources Operations Account. Both DEQ and DNRC had appropriation authority in this account, which experienced a sharp decline in revenue due to coal and oil production declines in fiscal year 2015.

Article VIII Section 12 of the Montana Constitution states the legislature shall by law insure strict accountability of all revenue received and money spent. Section 17-1-507(1), MCA, states it is the policy of the legislature that a revenue source not be dedicated for a specific purpose unless it meets at least one of several listed conditions. Under this statute, there must be a legal basis for the revenue dedication. A legal basis is a constitutional mandate, federal mandate, or statutory requirement in which a source of funds is designated for a specific purpose. The transfer of General Fund money from one department to a state special revenue fund at another department constitutes a *de facto* designation of revenue without legislative action.

The Natural Resources Operations Account is one of several state special revenue funds that OBPP monitors closely because it is used by multiple agencies, an office manager said. When revenues are projected to come in lower than estimates, OBPP brings the affected agencies together to determine what resources are available to offset the revenue shortfall or what expenditure reductions must be made. In this case, DEQ identified some general fund authority as available to offset the revenue shortfall in the Natural Resources Operations Account in fiscal year 2015. Although both DEQ and DNRC had appropriations from the account, we question whether the legislature intended that General Fund resources be used to fund it.

Section 17-7-138(1)(a), MCA, states expenditures by a state agency must be made in substantial compliance with the budget approved by the legislature. Substantial compliance may be determined by conformity to the conditions contained in the general appropriations act and to legislative intent as established in the narrative accompanying the general appropriations act. A significant change may not conflict with a condition contained in the general appropriations act. Although the operating plan amendment is not considered significant unless it exceeds \$75,000, the use of an operating plan amendment in this case conflicts with legal requirements applicable to

revenue designation. Since it is not clear whether the legislature intended the provisions of “substantial compliance” to apply to situations involving revenue designation, we make no recommendation on this matter.

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
 Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
 Cindy Jorgenson
 Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
 of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity and Schedules of Total Revenues & Transfers-In for each of the fiscal years ended June 30, 2016, and 2015, and Schedule of Total Expenditures for the fiscal year ended June 30, 2016, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2015, of the Governor's Office and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the office's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control, and accordingly, we express no such opinion. An audit

also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets and liabilities.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the office as of June 30, 2016 and June 30, 2015, or changes in financial position for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity and Schedules of Total Revenues & Transfers-In for each of the fiscal years ended June 30, 2016, and 2015, the Schedule of Total Expenditures for the fiscal year ended June 30, 2016, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2015, present fairly, in all material respects, the results of operations and changes in fund equity of the Governor's Office for each of the fiscal years ended June 30, 2016, and 2015, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016, on our consideration of the office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an

audit performed in accordance with *Government Auditing Standards* in considering the office's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 17, 2016

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund
FUND EQUITY: July 1, 2015	<u>\$ (347,241)</u>	<u>\$ 1,299,716</u>
ADDITIONS		
Budgeted Revenues & Transfers-In	64	59,808
Nonbudgeted Revenues & Transfers-In	1	
Prior Year Revenues & Transfers-In Adjustments	(1,343)	1,343
Direct Entries to Fund Equity	6,460,288	(1,241,420)
Total Additions	<u>6,459,010</u>	<u>(1,180,269)</u>
REDUCTIONS		
Budgeted Expenditures	6,520,387	58,459
Nonbudgeted Expenditures	(9,536)	
Prior Year Expenditures Adjustments	(16,495)	
Total Reductions	<u>6,494,356</u>	<u>58,459</u>
FUND EQUITY: June 30, 2016	<u>\$ (382,587)</u>	<u>\$ 60,988</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund
FUND EQUITY: July 1, 2014	<u>\$ (393,718)</u>	<u>\$ 6,048,410</u>
 ADDITIONS		
Budgeted Revenues & Transfers-In	151	30,344
Nonbudgeted Revenues & Transfers-In	1,521	
Direct Entries to Fund Equity	<u>6,317,093</u>	<u>(4,423,694)</u>
Total Additions	<u>6,318,765</u>	<u>(4,393,350)</u>
 REDUCTIONS		
Budgeted Expenditures & Transfers-Out	6,278,562	355,344
Nonbudgeted Expenditures & Transfers-Out	(5,939)	
Prior Year Expenditures & Transfers-Out Adjustments	<u>(335)</u>	
Total Reductions	<u>6,272,288</u>	<u>355,344</u>
 FUND EQUITY: June 30, 2015	<u>\$ (347,241)</u>	<u>\$ 1,299,716</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services	\$ (1,343)	\$ 3,440	\$ 3,440
Grants, Contracts, and Donations	65	19,448	19,448
Transfers-in		38,263	36,920
Miscellaneous			65
Total Revenues & Transfers-In	<u>(1,278)</u>	<u>61,151</u>	<u>59,873</u>
Less: Nonbudgeted Revenues & Transfers-In	1		1
Prior Year Revenues & Transfers-In Adjustments	<u>(1,343)</u>	<u>1,343</u>	<u>0</u>
Actual Budgeted Revenues & Transfers-In	64	59,808	59,872
Estimated Revenues & Transfers-In	64	59,758	59,822
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>0</u>	<u>50</u>	<u>50</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Grants, Contracts, and Donations		\$ 50	\$ 50
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>0</u>	<u>50</u>	<u>50</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Charges for Services	\$ 8,250	\$ 8,250	\$ 8,250
Grants, Contracts, and Donations	10,000	10,000	10,000
Transfers-in	12,094	12,094	12,094
Miscellaneous	1,672	1,672	1,672
Total Revenues & Transfers-In	1,672	30,344	32,016
Less: Nonbudgeted Revenues & Transfers-In	1,521	1,521	0
Prior Year Revenues & Transfers-In Adjustments			
Actual Budgeted Revenues & Transfers-In	151	30,344	30,495
Estimated Revenues & Transfers-In	151	30,344	30,495
Budgeted Revenues & Transfers-In Over (Under) Estimated	0	0	0
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 0	\$ 0

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PROGRAM (ORG) EXPENDITURES	Air Transportation Program	Citizens' Advocate Office	Coordinator of Indian Affairs	Executive Residence Operations	Executive Office Program	Lieutenant Governor's Office	Mental Disabilities BD Visitors	Office of Budget & Program Planning	Total
Personal Services									
Salaries	\$ 89,314		\$ 126,469	\$ 67,884	\$ 1,701,194	\$ 229,632	\$ 298,082	\$ 1,369,844	\$ 3,882,419
Employee Benefits	27,561		43,307	33,929	545,425	71,369	114,270	418,854	1,254,715
Total	<u>116,875</u>		<u>169,776</u>	<u>101,813</u>	<u>2,246,619</u>	<u>301,001</u>	<u>412,352</u>	<u>1,788,698</u>	<u>5,137,134</u>
Operating Expenses									
Other Services	15,439		36,308	4,227	229,619	8,099	15,201	58,446	367,339
Supplies & Materials	74,191		987	46,319	48,375	876	4,034	30,282	205,064
Communications	976		5,629	6,022	44,052	2,807	8,593	19,987	88,066
Travel	6,854		9,033	1,725	99,809	15,691	19,669	21,743	174,524
Rent	921		5,724	4,052	137,693	4,790	6,101	63,017	222,298
Repair & Maintenance	94,828		360	2,402	32,923	80	586	7,540	138,719
Other Expenses	(190)	\$ (1)	7,306	2,871	148,764	8,855	5,922	46,144	219,671
Total	<u>193,019</u>	<u>(1)</u>	<u>65,347</u>	<u>67,618</u>	<u>741,235</u>	<u>41,198</u>	<u>60,106</u>	<u>247,159</u>	<u>1,415,681</u>
Total Expenditures	\$ 309,894	\$ (1)	\$ 235,123	\$ 169,431	\$ 2,987,854	\$ 342,199	\$ 472,458	\$ 2,035,857	\$ 6,552,815
EXPENDITURES BY FUND									
General Fund	\$ 307,371	\$ (1)	\$ 214,755	\$ 169,431	\$ 2,958,137	\$ 336,348	\$ 472,458	\$ 2,035,857	\$ 6,494,356
State Special Revenue Fund	2,523		20,368		29,717	5,851			58,459
Total Expenditures	<u>309,894</u>	<u>(1)</u>	<u>235,123</u>	<u>169,431</u>	<u>2,987,854</u>	<u>342,199</u>	<u>472,458</u>	<u>2,035,857</u>	<u>6,552,815</u>
Less: Nonbudgeted Expenditures									
Prior Year Expenditures	(2,067)		(1)		(15,126)				
Actual Budgeted Expenditures	<u>311,961</u>	<u>0</u>	<u>235,123</u>	<u>169,431</u>	<u>3,002,980</u>	<u>342,199</u>	<u>472,458</u>	<u>2,044,694</u>	<u>6,578,846</u>
Budget Authority	312,043		236,177	169,431	3,158,378	347,328	472,546	3,566,578	8,262,481
Unspent Budget Authority	<u>82</u>	<u>0</u>	<u>1,054</u>	<u>0</u>	<u>155,398</u>	<u>5,129</u>	<u>88</u>	<u>1,521,884</u>	<u>1,683,635</u>
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund	\$ 82		\$ 2	\$ 0	\$ 0	\$ 980	\$ 88	\$ 794,119	\$ 795,271
State Special Revenue Fund			1,052		7,282	4,149		600,000	612,483
Federal Special Revenue Fund					148,116				102,765
Internal Service Fund									250,881
Unspent Budget Authority	<u>82</u>	<u>0</u>	<u>1,054</u>	<u>0</u>	<u>155,398</u>	<u>5,129</u>	<u>88</u>	<u>1,521,884</u>	<u>1,683,635</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.

Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air Transportation Program	Centralized Services Program	Citizens' Advocate Office	Coordinator of Indian Affairs	Executive Residence Operations	Executive Office Program	Lieutenant Governor's Office	Mental Disabilities BD Visitors	Office of Budget & Program Planning	Total
Personal Services										
Salaries	\$ 86,302	\$ 242,343	\$ 88,369	\$ 123,110	\$ 60,627	\$ 1,592,653	\$ 219,894	\$ 244,311	\$ 1,114,532	\$ 3,772,141
Employee Benefits	25,689	65,069	35,637	41,040	30,095	484,344	69,132	85,764	344,690	1,181,460
Total	111,991	307,412	124,006	164,150	90,722	2,076,997	289,026	330,075	1,459,222	4,953,601
Operating Expenses										
Other Services	13,060	15,659	2,100	12,913	4,360	258,662	9,447	17,307	82,185	415,693
Supplies & Materials	101,854	15,772	1,049	984	52,568	26,860	773	5,241	16,135	221,236
Communications	919	4,018	5,194	5,930	5,575	64,748	2,764	8,267	17,039	114,454
Travel	3,713		64	3,451	351	113,992	18,855	16,038	7,700	164,164
Rent	966			4,812	2,473	121,154	3,548	6,701	52,998	192,652
Repair & Maintenance	147,035	157		288	806	33,066	30	639	3,169	185,190
Other Expenses	2,090	1,764	279	1,849	2,731	73,375	5,308	2,546	40,700	130,642
Total	269,637	37,370	8,686	30,227	68,864	691,857	40,725	56,739	219,926	1,424,031
Transfers-out										
Fund transfers									250,000	250,000
Total								250,000	250,000	250,000
Total Expenditures & Transfers-Out	\$ 381,628	\$ 344,782	\$ 132,692	\$ 194,377	\$ 159,586	\$ 2,768,854	\$ 329,751	\$ 386,814	\$ 1,929,148	\$ 6,627,632
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund	\$ 288,378	\$ 344,782	\$ 132,692	\$ 183,626	\$ 159,586	\$ 2,768,854	\$ 329,751	\$ 386,814	\$ 1,677,805	\$ 6,272,288
State Special Revenue Fund	93,250			10,751					251,343	355,344
Total Expenditures & Transfers-Out	381,628	344,782	132,692	194,377	159,586	2,768,854	329,751	386,814	1,929,148	6,627,632
Less: Nonbudgeted Expenditures & Transfers-Out										
Prior Year Expenditures & Transfers-Out Adjustments	(26)								4	145
Actual Budgeted Expenditures & Transfers-Out	381,654	350,721	132,692	194,377	159,586	2,768,912	330,151	386,810	1,929,003	6,633,905
Budget Authority	385,164	358,695	132,951	194,737	159,849	11,768,767	330,740	387,537	2,434,052	16,152,492
Unspent Budget Authority	\$ 3,510	\$ 7,974	\$ 259	\$ 360	\$ 263	\$ 8,999,855	\$ 589	\$ 727	\$ 505,049	\$ 9,518,587
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	\$ 891	\$ 4,643	\$ 259	\$ 361	\$ 263	\$ 4,236	\$ 589	\$ 727	\$ 114,989	\$ 126,958
State Special Revenue Fund	2,619	3,331				75,000			265,060	346,010
Federal Special Revenue Fund						8,920,619			125,000	9,045,619
Unspent Budget Authority	\$ 3,510	\$ 7,974	\$ 259	\$ 361	\$ 263	\$ 8,999,855	\$ 589	\$ 727	\$ 505,049	\$ 9,518,587

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.

Additional information is provided in the notes to the financial schedules beginning on page A-11.

Governor's Office
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2016

1. Summary of Significant Accounting Policies

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the office records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Office State Special Revenue Funds include an appropriation from the oil and gas ERA to fund the greater sage-grouse habitat conservation advisory council established by the Governor in Executive Order No. 2-2013 and passed by the 2013 Legislature as HB0580; state agency use of the executive's airplane; support from agencies to fund interagency projects; and private grants provided to the office for specified purposes.

- ♦ **Federal Special Revenue Fund** - to account for activities funded from federal revenue sources. Office Federal Special Revenue Funds include a federal allocation from the United States Department of Treasury under the State Small Business Credit Initiative Act of 2010 and personal services contingency funding in the Office of Budget and Program Planning.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2015 and June 30, 2016.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, State Special Revenue, and Federal Special Revenue Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Unspent Budget Authority

The Executive Office Program at June 30, 2015, had \$8,920,619 in unspent federal budget authority relating to the U.S. Department of Treasury State Small Business Credit Initiative Act (SSBCI) which was awarded to the office in 2010. The Governor designated the Department of Commerce to carry out the requirements of SSBCI and monies for the initiative were received by that department. Commerce also had sufficient authority to fund the SSBCI initiative and did not require a transfer of budget authority from the Governor's Office. All loan and administrative expenditures were paid by the Department of Commerce and in fiscal year 2015 \$403,313 of the award was returned to the federal government. In fiscal year 2016 the Governor's Office reduced its appropriation level to \$148,116 in order to align the appropriation with the remaining funds at the Department of Commerce.

The 2013 Legislature passed HB0580 which appropriated \$75,000 from the State Special Revenue Fund oil and gas ERA account to the Governor's Office to fund the greater sage-grouse habitat conservation advisory council. This amount was reverted at fiscal year-end 2015. The unspent budget authority in both years, for the Office of Budget and Program Planning, reflects unexpended personal services contingency

funds. Other unspent state special revenue budget authority includes funds for projects continuing forward into the succeeding year, money that was returned to grantors, and budget authority that lacked matching funds.

5. Personal Services Expenditures

The personal services expenditures included in the Schedule of Total Expenditures & Transfers-Out for fiscal year-end June 30, 2015, does not include \$52,350 in salaries and benefits for an employee loaned to the office, by another state agency, to provide legal and administrative assistance to the Office of Indian Affairs. The loan arrangement terminated in May, 2015.

6. Program Reorganization

During FY 2016, the Governor's Office had two agency reorganizations. The Centralized Services Division was combined with the Office of Budget and Program Planning and the Citizens" Advocate Office was combined with the Executive Office Program.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, Schedules of Changes in Fund Equity and Schedules of Total Revenues & Transfers-In for each of the fiscal years ended June 30, 2016, and 2015, Schedule of Total Expenditures for the fiscal year ended June 30, 2016, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2015, of the Office of the Governor and Lieutenant Governor (office) and the related notes to the financial schedules, and have issued our report thereon dated November 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the office's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness the office's internal control. Accordingly, we do not express an opinion on the effectiveness of the office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the office's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 17, 2016

OFFICE OF THE
GOVERNOR AND
LIEUTENANT GOVERNOR

OFFICE RESPONSE

OFFICE OF THE GOVERNOR
STATE OF MONTANA

C-1



STEVE BULLOCK
GOVERNOR

MIKE COONEY
LT GOVERNOR

November 28, 2016

RECEIVED

NOV 28 2016

LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Maciver:

I appreciate the hard work of John Fine and your staff in conducting a thorough and extensive audit of the Officer of the Governor and Lieutenant Governor. I am proud of the audit outcome including no audit recommendations. The staff of the Governor's Office has worked hard to account for previous audit recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Villa".

Dan Villa
Budget Director